c. Bell Atlantic

243. Initially, Bell Atlantic notes that the Commission has not prescribed any particular methodology to calculate the BFP revenue requirement. Therefore, Bell Atlantic argues, a number of reasonable projection methods may be consistent with the Commission's rules. According to Bell Atlantic, it relied on the rate of growth from the prior year to predict the growth rate in the coming year.[373] Bell Atlantic also states that it used the same methodology for both its northern and southern affiliates.[374] Bell Atlantic contends that its method: (1) avoids complicated calculations that can engender disputes; (2) relies on the most recent data and avoids distortions caused by old data that may no longer be relevant; and (3) has a self-correcting measure, if used consistently.[375]

244. Bell Atlantic states that it augmented its projections with the trend analysis required by the Commission, and that nothing in those analyses calls into question the reasonableness of Bell Atlantic's methodology. While acknowledging some deviations between the forecasted and the actual results, Bell Atlantic contends that the deviations include both under- and over-forecasts, and that the deviations in recent years have been relatively small.[376] Bell Atlantic argues that the Commission should not use a figure of ten percent to define a significant percentage change. Because the definition is on the basis of percentage change, Bell Atlantic argues that a forecast could cross the ten-percent threshold while still being an accurate predictor of actual demand and cost levels. Moreover, Bell Atlantic argues that, even where the difference between the projection and the actual result is large, it does not indicate that the methodology is unreasonable. In support of this argument, Bell Atlantic provides explanations of the cause of every deviation defined as significant by the ten-percent test.[377]

245. Bell Atlantic states that the Commission should stop requiring forecasts, and instead rely on historical data. If the Commission, however, retains forecasts but modifies the requirements, Bell Atlantic states that the Commission should only require a prospective adjustment. Bell Atlantic contends that its calculations were consistent with the requirements

---

Petition for Waiver of Sections 61.47, 69.153(c)(1), 69.153(d)(1)(i) and 69.153(d)(2)(i) of the Commission's Rules, CCB/CPD No. 97-56, Memorandum Opinion and Order, DA 97-2335 (Com. Car. Bur., rel. Nov. 5, 1997).

[373] Bell Atlantic Direct Case at 3.

[374] *Id.*

[375] Bell Atlantic Direct Case at 3.

[376] Bell Atlantic Direct Case at 3-4.

[377] Bell Atlantic Direct Case at 4.

imposed by the Commission at the time of its filing. As a whole, Bell Atlantic claims that its BFP revenue requirement forecast results varied from its actual levels by less than three percent for the most recent year, and that its demand projections varied from the actual levels by less than one percent.[378]

246. Bell Atlantic-North's 1992-1993 actual BFP revenue requirement was $1,013 million compared to a projection of $914 million.[379] The difference, according to Bell Atlantic, was caused by under-forecasts in expenses, other taxes, depreciation and net return. Bell Atlantic-North's 1993-1994 actual BFP revenue requirement was $1,237 million compared to a projection of $1,038 million.[380] The difference, according to Bell Atlantic, was caused by under-forecasts in expenses and other taxes. Bell Atlantic-North's 1994-1995 actual BFP revenue requirement was $1,273 million compared to a projection of $1,174 million.[381] The difference, according to Bell Atlantic, was caused by under-forecasts in expenses and other taxes. Expenses included a special pension enhancement offer initiated in mid-1994. Bell Atlantic-North's tariff year 1995/96 actual BFP revenue requirement was $1,378 million compared to a projection of $1,211 million.[382] The difference, according to Bell Atlantic, was caused by under-forecasts in expenses and other taxes. Expenses included a special pension enhancement offer initiated in mid-1994. Bell Atlantic-North's tariff year 1996/97 actual BFP revenue requirement was $1,191 million compared to a projection of $1,243 million, because of an over-forecast of the company's rate base and net return.[383]

247. Bell Atlantic-South's 1992-1993 actual BFP revenue requirement was $942,392 compared to a projection of $915,634, because of a one-time retirement incentive offers in the fourth quarter of 1992.[384] Bell Atlantic-South's 1993-1994 actual BFP revenue requirement was $1,111,974 compared to a projection of $1,135,171, because of lower than forecasted plant in service coupled with higher than anticipated reserves.[385] Bell Atlantic-South's 1994-1995 actual BFP revenue requirement was $1,204,652 compared to a projection of $1,159,884, because of higher than forecasted BFP operating expenses and telephone plant in

[378] Bell Atlantic Direct Case at 6.

[379] Bell Atlantic Direct Case, Detailed Responses at 7.

[380] Bell Atlantic Direct Case, Detailed Responses at 8.

[381] Bell Atlantic Direct Case, Detailed Responses at 8.

[382] Bell Atlantic Direct Case, Detailed Responses at 8.

[383] Bell Atlantic Direct Case, Detailed Responses at 8.

[384] Bell Atlantic Direct Case, Detailed Responses at 9.

[385] Bell Atlantic Direct Case, Detailed Responses at 9.

service.[386] Bell Atlantic-South's 1995-1996 actual BFP revenue requirement was $1,235,126 compared to a projection of $1,259,843, because of an over-forecast of telephone plant and an under-forecast of services.[387] Bell Atlantic-South's 1996-1997 actual BFP revenue requirement was $1,293,245 compared to a projection of $1,304,709, because of higher BFP reserve levels.[388]

248. Bell Atlantic-North explains that its pattern of underestimation of the BFP revenue requirement was largely due to overruns in expenses and taxes. Bell Atlantic-South contends that it did not consistently over- or under-project its BFP revenue requirements, and that any differences were due to unexpected events that arose during the particular tariff period.

249. Regarding any large year-to-year changes that emerged in each adjusted series of actual BFP revenue requirements, Bell Atlantic-North states that the increase of 11.4% from $1,150 million in 1993 to $1,278 million in 1994, and the decrease of 12.3% from $1,390 million in 1995 to $1,216 million in 1996 were due to higher revenue requirements that occurred in 1994 and 1995.[389] According to Bell Atlantic-North, 1994 includes $110,000 in one-time nonrecurring special pension enhancement expenses. The year 1995 includes $62,000 in one-time special pension enhancement expenses and $106,000 in expenses and other taxes related to audit statements and contingent liabilities. Bell Atlantic-South states that its growth in adjusted BFP revenue requirement for calendar year 1993 exceeded six percent due to costs associated with the adoption of SFAS 112 in 1993.[390]

250. Bell Atlantic-North contends that its forecasts are reasonable as shown by the closeness of its projections relative to actuals. If anything, contends Bell Atlantic-North, its 1997/1998 Annual Filing forecast is lower than the historical trend.[391] Bell Atlantic-South also contends that its BFP revenue requirement forecast included in its 1997 Annual Price Cap tariff is consistent with historical trends.[392]

---

[386] Bell Atlantic Direct Case, Detailed Responses at 9.

[387] Bell Atlantic Direct Case, Detailed Responses at 9.

[388] Bell Atlantic Direct Case, Detailed Responses at 10.

[389] Bell Atlantic Direct Case, Detailed Responses at 15.

[390] Bell Atlantic Direct Case, Detailed Responses at 15.

[391] Bell Atlantic Direct Case, Detailed Responses at 18.

[392] Bell Atlantic Direct Case, Detailed Responses at 18.

251. Regarding OB&C and Payphone adjustments, Bell Atlantic states that each price cap LEC demonstrated separately those adjustments in their respective exhibits.[393]

252. In explaining the differences between the actual number of lines and its projections, Bell Atlantic-North states that its forecast for 1992/93 did not pick up the recessionary trend that occurred in access line growth.[394] In the economic downturn, it overestimated the 1992/93 growth rate and, in the economic recovery, the growth rate was also overestimated. Bell Atlantic-North also contends that multi-line business growth was more robust than expected in every year except the 1995/96 tariff year, but that the difference between actual and projected never exceeded 3.3%.

253. Bell Atlantic-South, in responding to differences in line growth, states that in 1992/93 and 1994 through 1996/97, actual demand growth for residential and single line business lines overran projected growth primarily due to increasingly stronger demand for residential access lines. Additionally, in 1993/94 growth in actual demand underran projections due to a decrease in single line business demand, which was driven by a relatively large migration from single line business demand to multi-line business demand. For multi-line business lines, growth in actual demand overran projections in every year, due primarily to: (1) increasing demand for Centrex services; and (2) in 1993 and 1996, significant migration from single line business demand to multi-line business demand.[395]

254. The *1997 Designation Order*[396] required each LEC either to: (1) demonstrate that the projection for the 1997-1998 tariff year is consistent with the value predicted by the historical trend of end-user demand; or (2) state specifically the underlying factor or factors that they expect will change, and the projected effect(s) of the expected change(s), expressed in a numerical prediction.[397] Bell Atlantic-North responded by stating that it compared its end-user demand forecast to forecasts based on: (1) a trend of end-user demand for the period 1991/92 through 1996/97; (2) a trend of the natural logarithm of this demand; and (3) a trend of the annual growth in this demand. According to Bell Atlantic-North, all three trends suggest that its end user demand projection is slightly under-forecasted.[398] Bell Atlantic-South did the same comparison, and found that the first trend suggests that its forecast of total

---

393 *See* Bell Atlantic Exhs. 16N-3-A and 16S-3-A.

394 Bell Atlantic Direct Case, Detailed Responses at 22.

395 Bell Atlantic Direct Case, Detailed Responses at 23.

396 *1997 Designation Order* at ¶ 33.

397 *Id.*

398 Bell Atlantic Direct Case, Detailed Responses at 25; Bell Atlantic Exh. 33N-1-B.

billable lines may be overstated by 206,391 lines -- a possible overstatement of only 1.0%.[399] The third trend, states Bell Atlantic-South, suggests that its forecast may be understated by 125,538 lines (0.60%), while the second trend suggests that the forecast in correct.

255. The *1997 Designation Order*[400] also required each price cap LEC to explain any differences between its actual per-line BFP revenue requirements and their per-line BFP revenue requirements projected in their Annual Access Tariff filing.[401] Bell Atlantic-North responded for these tariffs periods as follows.

1992-1993

Bell Atlantic-North's 1992/1993 actual BFP revenue requirement per-line overran the forecast because the forecasted revenue requirement was below the actuals and the forecasted number of lines was above the actuals, both of which combined to have a downward effect on the per-line forecast as compared to actuals.[402]

1993-1994

Bell Atlantic-North's 1993/1994 actual BFP revenue requirement per-line overran the forecast because of downward impact of the under-forecasted revenue requirement was greater than the upward impact on the under-forecasted number of lines.[403]

1994-1995

Bell Atlantic-North's 1994/1995 actual BFP revenue requirement per-line overran the forecast because of the downward impact of the under-forecasted revenue requirement was greater than the upward impact on the under-forecasted number of lines.[404]

1995-1996

Bell Atlantic-North's 1995/1996 actual BFP revenue requirement per-line overran the forecast because of the downward impact of the under-forecasted revenue

---

399 Bell Atlantic Direct Case, Detailed Responses at 25; Bell Atlantic Exh. 33S-1-B.

400 *1997 Designation Order* at ¶ 34.

401 *Id.*

402 Bell Atlantic Direct Case, Detailed Responses at 28; Bell Atlantic Exh. 34N-1.

403 Bell Atlantic Direct Case, Detailed Responses at 28; Bell Atlantic Exh. 34N-1.

404 Bell Atlantic Direct Case, Detailed Responses at 28; Bell Atlantic Exh. 34N-1.

requirement.[405] Bell Atlantic-North contends that the number of lines was within the Commission's acceptability parameters.

1996-1997

Bell Atlantic-North's 1994/1995 actual BFP revenue requirement per-line overran the forecast because of both the upward impact of the over-forecasted revenue requirement and the upward impact of the under-forecasted number of lines.[406]

Bell Atlantic-South responded for these tariff periods as follows.

1992/1993

Bell Atlantic-South's actual BFP revenue requirement per-line overran the forecast by 1.85% due to an overrun in BFP revenue requirement relative to the company's forecast.[407]

1993/1994

Bell Atlantic-South's actual BFP revenue requirement per-line underran the forecast by 1.89% due to an underrun in BFP revenue requirement.[408]

1994/1995

Bell Atlantic-South's actual BFP revenue requirement per-line overran the forecast by 3.25 % due to an overrun in BFP revenue requirement.[409]

1995/1996

Bell Atlantic-South's actual BFP revenue requirement per-line underran the forecast by 2.57% due to an underrun in BFP revenue requirement coupled with an overrun in end-user demand.[410]

1996/1997

Bell Atlantic-South's actual BFP revenue requirement per-line underran the forecast by 1.98% due to a combination of an underrun in BFP revenue

405 Bell Atlantic Direct Case, Detailed Responses at 28; Bell Atlantic Exh. 34N-1.

406 Bell Atlantic Direct Case, Detailed Responses at 28; Bell Atlantic Exh. 34N-1.

407 Bell Atlantic Direct Case, Detailed Responses at 28; Bell Atlantic Exh. 34S-1.

408 Bell Atlantic Direct Case, Detailed Responses at 28; Bell Atlantic Exh. 34S-1.

409 Bell Atlantic Direct Case, Detailed Responses at 28; Bell Atlantic Exh. 34S-1.

410 Bell Atlantic Direct Case, Detailed Responses at 28; Bell Atlantic Exh. 34S-1.

requirement and an overrun in end-user demand.[411]

d. BellSouth

256. BellSouth provides actual and projected BFP revenue requirement data for the 1991 through 1996 calendar and tariff years showing that its projections exceeded the Commission's ten percent tolerances from actual growth on three occasions. For tariff year 1991/92, BellSouth significantly underestimated its BFP revenue requirement.[412] BellSouth states that this difference had three main causes: (1) its total operating expenses subject to separations exceeded its projections; (2) differences between its projected and actual separations factors caused additional costs to be allocated to the interstate jurisdiction; and (3) its federal income taxes exceeded projections.[413] BellSouth also underestimated its BFP revenue requirement for tariff year 1994/95.[414] BellSouth alleges that this difference resulted from its introduction in March, 1994, and March, 1995, of new basic studies of COE-transmission equipment that resulted in the allocation of significantly higher expenses to the BFP element of the common line and that were not reflected in its April 1, 1994, annual access tariff filing.[415]

257. BellSouth's BFP revenue requirement forecast exceeded its actual BFP revenue requirement in tariff year 1996/97.[416] BellSouth attributes this error to lower overall expense levels associated with the continued implementation of its re-engineering and force reduction initiatives. These initiatives resulted in lower overall operating expenses for 1996/97. In addition, BellSouth states that its "Total Other Taxes BFP" was lower than forecast.[417]

258. In developing its 1997/98 BFP revenue requirement forecast, BellSouth employed a "bottoms-up" methodology under which it projected expenses and investments by account code, adjusting each for expected growth or reductions in the future period and one-time events experienced in the past year or expected in the future.[418] BellSouth contends that such

---

411 Bell Atlantic Direct Case, Detailed Responses at 28; Bell Atlantic Exh. 34S-1.

412 BellSouth Direct Case at Appendix A, Exh. 4.

413 BellSouth Direct Case at Appendix A, Exh. 5.

414 BellSouth Direct Case at Appendix A, Exh. 4.

415 BellSouth Direct Case at Appendix A, Exh. 5.

416 BellSouth Direct Case at Appendix A, Exh. 4.

417 BellSouth Direct Case at Appendix A, Exh. 5.

418 BellSouth Direct Case at 6.

an approach is preferable to one based on trend analysis. BellSouth states that a trend approach is unreliable in situations where the company's operating environment or cost structure is undergoing rapid and permanent change.[419] BellSouth states that it expects its continuing re-engineering and reorganization efforts to continue to produce a low BFP revenue requirement growth rate in the 1997/98 tariff year and that a BFP revenue requirement projection based on the historical trend will fail to capture the effects of its efforts.[420]

259. In contrast to the low growth rate of its BFP revenue requirement, BellSouth states that its EUCL demand figures are growing rapidly.[421] BellSouth provides data showing that its EUCL demand forecasts significantly overestimated EUCL demand growth for the 1991/92 tariff year, but significantly underestimated EUCL demand growth for the 1992/93, 1994/95, and 1995/96 tariff years.[422] BellSouth states that, due to company restructuring, since 1992, documentation that could provide additional information on these discrepancies is not readily available, if it exists at all.[423] BellSouth does provide information, however, stating that its 1996/97 EUCL demand forecasts were within the 10 percent tolerances established by the Commission.[424] Its 1996/97 single-line business projected growth varied significantly from its forecast, however -- a result BellSouth attributes to the small number of SLB lines and low growth rates of that class of lines.[425] BellSouth also argues that, because only the total number of billable access lines is used to determine per-line BFP revenue requirements, only the accuracy of its projections of total billable access lines is relevant, not the underlying components.[426]

260. Although BellSouth notes that its EUCL demand projection for 1997/98 is

---

419 BellSouth Direct Case at 5.

420 *Id.*

421 BellSouth Direct Case at 6.

422 BellSouth Direct Case at Appendix D, Exh. 2.

423 *Id.*

424 BellSouth Direct Case at Appendix D, Exh. 3. In preparing its direct case, BellSouth discovered certain errors in its treatment of some coin telephones. BellSouth provides both corrected and uncorrected overall EUCL demand data that satisfy the Commission's 10 percent tolerance test, even though certain components do not.

425 *Id.* BellSouth states that the Commission's test is inappropriate where either the base amount of the actual growth is "small." Under either of these circumstances, BellSouth argues that relatively small absolute errors fail the "percentage error" test established by the Commission. BellSouth Direct Case at 9.

426 BellSouth Direct Case at 8-9.

consistent with the historical trend, BellSouth states that its own forecasts are more accurate than those produced by a time-trend analysis because its EUCL demand is experiencing rapid growth not captured by the historical pattern.[427] BellSouth also provides several trend predictions using historical data, concluding that the results of extrapolation based on a two-year trend, in this case, are more accurate than those produced by the full four, five or six year trend.[428]

e. Frontier and Rochester Telephone

261. Frontier submits data for Frontier and Rochester Telephone separately, noting that historical revenue data for Tier 2 companies, including Rochester Telephone, are no longer available for 1991 and 1992. Therefore, Frontier is able to supply only four data points for Rochester Telephone.[429] Frontier questions the relevance of the data requested by the Commission to the issues under investigation. In particular, Frontier questions the use of *post hoc* judgements as to the accuracy of past forecasts to gauge the accuracy of the 1997/98 BFP revenue requirement and EUCL demand forecasts.[430]

262. Frontier also questions the assertion by AT&T and MCI that it faces an incentive to understate its BFP revenue requirement because the allocation of common-line revenue between EUCL and CCL charges is a "zero-sum" game.[431] Frontier also asserts that its data shows that, had projections exactly coincided with its actual figures, the IXCs would have paid more in CCL charges than they actually did.[432]

263. Frontier states that, to project EUCL demand levels for Rochester Telephone, it extrapolates the growth rate experienced in the base period, compared to the previous base period, adjusted for changes to the Commission's rules. Thus, to project its tariff year 1997/98 EUCL demand, Frontier computed the growth rate from December, 1995, through December, 1996, applied this growth rate to the December, 1996, data, and adjusted for changes to the treatment of ISDN and payphone lines. Frontier states that this method, also used for tariff years 1995/96 and 1996/97, is reasonable, as evidenced by accurate results. Frontier states that its filed growth rates are within 10 percent of the growth rates generated

---

427 BellSouth Direct Case at 7.

428 BellSouth Direct Case at 7.

429 Frontier Direct Case at 2-3.

430 Frontier Direct Case at 1-2.

431 Frontier Direct Case at 6-7.

432 *Id.* at 7.

by the natural logarithm regression analysis of lines from 1991 through 1996.[433]

264. Frontier, however, submits data showing that it underestimated its projected BFP revenue requirements in tariff years 1993/94 and 1994/95 because it incurred larger than expected GSF expenses as the company increased its computerization.[434] In tariff year 1995/96, Frontier states that Rochester Telephone brought these expenses under control, with the result that it overestimated its BFP revenue requirement that year.[435] Frontier states that Rochester Telephone's actual BFP revenue requirement for tariff year 1996/97 was within 0.5 percent of its forecast.[436]

265. Frontier shows that Rochester Telephone's projected per line BFP revenue requirements ranged from -1.57 percent to +2.08 percent error for any given tariff year.[437]

266. Frontier states that the Frontier BFP revenue requirements were projected for tariff years through 1994/95 using the tariff period's forecasted budget to perform Part 36 and 69 cost studies.[438] After that time, Frontier's BFP revenue requirements have been based on "historical trends and miscellaneous assumptions, because the budget numbers are no longer available in time for the filing."[439] Frontier submits data showing that its projected BFP revenue requirements for all tariff years between 1991/92 and 1996/97 satisfy the ten percent test.[440]

267. With respect to EUCL demand, Frontier states that its growth projection for the 1991/92 tariff year exceeded actual growth because residential and single-line business lines did not grow at the historical trend. Frontier states that its 1993/94 projection underestimated EUCL demand growth because the forecast was conservative and residential line growth exceeded the historical amount. Frontier also states that its 1996/97 EUCL demand projection underestimated line growth because multi-line business lines grew at a higher rate than

---

433 Frontier Direct Case at Attachment A.

434 Frontier Direct Case at Attachment A.

435 *Id.*

436 *Id.*

437 Frontier Direct Case at Attachment A, Exh. 18.

438 Frontier Direct Case at Attachment B.

439 *Id.*

440 Frontier Direct Case at Attachment B, Exh. 5.

historical growth would indicate, partly as a result of changes in the treatment of payphones.[441] Frontier states that, in the other tariff years, EUCL demand projections were within the limits of the ten percent test.

268. As with Rochester Telephone, Frontier states that its per-line BFP revenue requirement projections were within the limits of the ten percent test for all tariff periods between 1991/92 and 1996/97.[442]

f. GTE

269. GTE contends that it has fully supported its 1997 Annual Access tariff filing, and that it has properly forecasted the interstate BFP revenue requirement within reasonable limits.[443] For the tariff periods of 1991-92 through 1995-96, GTE states that the composite difference between the projected and the actual interstate BFP revenue requirement for GTE has been only 1.5 percent. During the period 1991 through 1996, GTE used forecasted budget data in the preparation of its projected interstate BFP revenue requirements. GTE contends that the yearly differences between its budget data and the actual interstate BFP revenue requirement occur because of the wide geographic area GTE serves and because of acts of nature and changes in economic conditions.[444] While GTE concedes that its yearly errors fail the ten percent test of significant differences, GTE also states its belief that the forecasts are within reasonable limits.

270. GTE states that it calculated the exogenous impacts of the Commission rule changes identified in the *1997 Designation Order*, in accordance with Parts 36 and 69 of the Commission's rules, through the use of base and test case separation studies.[445] With respect to relatively "large" year-to-year changes, GTE states that two of its calculated year-to-year changes, which were calculated using each adjusted series of actual BFP revenue requirements, appear to be outliers. GTE attributes the first of these apparent outliers, in tariff year 1991-92, to the transition to GTE systems and procedures in connection with its merger with Contel. GTE contends that the second "large" change was the result of process re-engineering activities that took place during the 1995/96 tariff year.

271. In response to the *1997 Designation Order's* request for alternative methods to forecast BFP revenue requirements, GTE favors the use of the previous year's actual interstate

---

[441] Frontier Direct Case at Attachment B and Attachment B, Exh. 9.

[442] *Id.* at Attachment B, Exh. 10.

[443] GTE Direct Case at 1.

[444] GTE Direct Case at 5.

[445] GTE Direct Case at 8 and Exhibits A-1 and A-2.

BFP revenue requirement rather than projecting interstate BFP revenue requirement on either a historic trend or a bottoms-up approach.[446] GTE argues that it would be unreasonable to pool all of the LECs' BFP revenue requirements into a single data set. This "one-size-fits all" approach to all price cap LECs does not recognize, according to GTE, the different operating characteristics, areas served, and different technologies specific to each LEC. Further, GTE states that they should not be required to apply the effect of rule changes on a retroactive basis.

272. GTE states that its 1997/98 projection is not consistent with the historical trend for two primary reasons. First, GTE recognized a decrease in actual BFP revenue requirement in 1996 as compared with 1995, creating a lower projection for the 1997/98 tariff period as compared to the 1996/97 tariff period.[447] Secondly, GTE states that it changed its projection methodology for interstate BFP revenue requirement for the 1997/98 tariff period.

273. Regarding end user demand, while there were some significant variations among individual categories, GTE contends that its projections of total billable access lines, multi-line business lines, and residential and single-line business lines, was well within acceptable industry parameters, and the forecast error fell within a range of 0.06 percent to 3.06 percent for tariff years 1991 through 1996. GTE contends that it has neither under nor over predicted the values filed, and that there is no consistent pattern in the errors.[448]

g. SBC: Southwestern Bell, Pacific Bell, and Nevada Bell

274. After summarizing the required BFP revenue requirement data for calendar- and tariff-years since 1991, SBC states that the differences between Southwestern Bell's actual and forecast BFP revenue requirements ranged from -3 percent to -10 percent.[449] SBC cites several business decisions that caused these differences: (1) actual expenses were incurred or realized that were not reflected in the budget data used for SWBT's BFP forecast; and (2) SWBT's BFP forecast did not reflect separations study changes that were implemented subsequent to the preparation of SWBT's forecast.[450]

275. SBC also explains that Southwestern Bell experienced several fluctuations in its tariff period forecasts, as set forth below:

---

[446] GTE Direct Case at 9.

[447] GTE Direct Case at 12.

[448] GTE Direct Case at 16.

[449] SBC Direct Case at Worksheets 1-3.

[450] SBC Direct Case at 4.

1991-1992:

The forecast was $23 million or 3.3 percent less than actual, attributable primarily to an underestimate of BFP net revenue. The increase in net investment was attributable to larger than projected investments associated with facility upgrades.

1992-1993:

The forecast was $76 million or 10.3 percent less than actual due to three business reasons and a natural disaster: (1) Cable and Wire and Circuit Equipment Studies introduced in 1992 and 1993 were not reflected in the forecast (accounting for $40 million of the difference); and (2) actual costs included expenses for: (a) right to use fees associated with the advancement of network interconnection requirements; (b) corporate relocation costs; (c) management incentive payments; and (d) additional costs related to a flood in the Midwest.

1993-1994

The forecast was $22 million or 2.5 percent less than actual due primarily to Cable and Wire and Circuit Equipment Studies introduced in 1993 and 1994 that were not reflected in the forecast.

1994-1995

The forecast was $32 million or 3.4 percent less than actual due primarily to Cable and Wire and Circuit Equipment Studies introduced in 1994 and 1995 that were not reflected in the forecast.

1995-1996

The forecast was $83 million or 8.1 percent less than actual due primarily to: (1) Cable and Wire and Circuit Equipment Studies introduced in 1995 and 1996 that were not reflected in the forecast (accounting for $36 million of the difference); and (2) actual expenses reflected an accumulation of items that resulted in operating expenses higher than amounts reflected in the forecast.

1996-1997

The forecast was $111 million or 9.8 percent less than actual due primarily to: (1) Cable and Wire and Circuit Equipment Studies introduced in 1996 and 1997 that were not reflected in the forecast (accounting for $35 million of the difference); (2) depreciation expenses not reflected in the forecast; and (3) actual restructuring expenses associated with the Pacific Telesis/CBS merger.[451]

[451] SBC Direct Case at 7-8.

276. In explaining patterns of over- or under-estimations, SBC states that it underestimated SWBT's actual BFP expense for all tariff periods, primarily because it did not incorporate SWBT's forecasts of separations study impacts for Cable and Wire and Circuit Equipment and, in addition, used budget data that reflected a conservative estimation of expenses.

277. SBC states that Pacific Bell's BFP revenue requirement forecasts generally underestimated the achieved growth rate. SBC attributes these errors to two primary causes: (1) Pacific Bell reduced its forecasted revenue requirement by $19.87 million in anticipation of RAO 20 reinstatement, but the Commission did not adopt the new rules for Account 4310 until the end of the tariff period; and (2) $109 million of expense was booked as a result of the merger with SBC Communications in 1997. SBC states that these two issues account for approximately $31 million of Pacific Bell's underestimated BFP revenue requirement.[452] SBC also identifies several one-time or unusual expense bookings for Pacific Bell, including expenses for early retirement offers, for the recent merger between Pacific Telesis and SBC, and for a "restructure reserve," and the impact of those issues on the actual BFP revenue requirement.[453]

278. SBC also states that Nevada Bell did not meet the Commission's "ten percent" test for any of the tariff years since 1991.[454] SBC states that, in general, the difference between projected and actual tariff year BFP revenue requirements was due to unexpected expense overruns and the introduction of final separation studies. Additionally, in 1993 Nevada Bell had what it contends was an unanticipated, unbudgeted "Early Retirement Offering" that resulted in approximately $681,000 additional BFP revenue requirement. In 1996, Nevada Bell contends that it had unbudgeted expenses for asbestos removal, a state rate case, and local competition resulting in approximately $475,000 additional BFP requirement. In 1997, Nevada Bell experienced a flood that it contends added approximately $52,000 to the BFP revenue requirement.

279. SBC contends that it used several assumptions and methodologies to compute adjustments to SWBT's BFP revenue requirements. To do so, SBC states that it used the exogenous cost change in its 1992 filing as a base to calculate the impacts on 1991 and 1992. The exogenous cost change calculated the difference between the 1991-92 and 1992-93 tariff year subscriber plant factor (SPF) values and dial equipment minute (DEM) transition values. SBC assumed that the cost change in the 1993 tariff filing was comparable to that experienced in 1991 and 1992. The 1992 revenue requirement was adjusted by an amount

---

452 SBC Direct Case at 9.

453 SBC Direct Case at Attachment PTCA-BFP-10A.

454 SBC Direct Case at 9.

equal to the exogenous cost change in the 1993 filing. SBC adjusted the 1991 revenue requirement by an amount two times the exogenous cost change in the 1993 filing, because 1991 was two transition years away from the end of the 1993 transition.[455] SBC contends that the exogenous cost change for GSF was calculated in accordance with Appendix B of the *1997 Designation Order*. The other postemployment benefit (OPEB) impacts were also developed by SBC.[456]

280. In explaining any large year-to-year changes that emerge in each adjusted series of actual BFP revenue requirements, the percentage changes in SWBT's adjusted BFP revenue requirement year-to-year show percentage growth values ranging from 3.45 to 9.56 percent.[457] SWBT identifies its 1994 and 1995 percentage changes of 3.45 percent and 9.56 percent, respectively, as outliers. The percentage growths for the other three years range from 5.37 percent to 6.9 percent. The major reason for the fluctuations are as follows:

1992 versus 1991
After adjustments, the 1992 growth over 1991 was 5.4 percent (approximately $41 million), due to the introduction of new studies for Cable and Wire and Circuit Equipment in 1992 (which accounted for approximately $30 million), and costs associated with additional loop-related facilities placed in service.

1993 versus 1992
After adjustments, the 1993 growth over 1992 was 6.9 percent (approximately $56 million), due to the introduction of new studies for Cable and Wire and Circuit Equipment in 1993 (which accounted for approximately $22 million), and expenses associated with flooding and restructuring.

1994 versus 1993
After adjustments, the 1994 growth over 1993 was 3.4 percent (approximately $31 million), due to the introduction of new studies for Cable and Wire and Circuit Equipment in 1994 (which accounted for approximately $25 million), and costs associated with additional loop-related facilities placed in service.

1995 versus 1994
After adjustments, the 1995 growth over 1994 was 9.56 percent (approximately $89 million), due to the introduction of new studies for Cable and Wire and

---

[455] SBC Direct case at 15; SWBT Worksheet 5; Pacific Bell Attachments BFP-4 and BFP-5; Nevada Bell Exhibits NV-BFP-6 and NV-BFP-7.

[456] *See* SWBT Worksheet 6; Pacific Bell Attachment BFP-9; Nevada Bell Exhibit NV-BFP-8.

[457] SBC Direct Case at 17.

Circuit Equipment in 1995 (which accounted for approximately $21 million), costs associated with additional loop-related facilities placed in service, and the fact that SWBT used higher rates of depreciation in 1995 than those used in 1994. SWBT also alleges that it realized additional expenses in 1995 due to accelerated infrastructure enhancements.

1996 versus 1995

After adjustments, the 1996 growth over 1995 was 5.73 percent (approximately $58 million), due to the introduction of new studies for Cable and Wire and Circuit Equipment in 1996 (which accounted for approximately $30 million), costs associated with additional loop-related facilities placed in service, and the fact that SWBT used higher rates of depreciation in 1996 than those used in 1995.

281. For Pacific Bell, SBC states that large changes are attributable to several one-time or unusual bookings made over the past six plus years. These issues include SFAS 88, SFAS 112, restructure reverse bookings and their associated SFAS curtailment loss, an early retirement offer, and merger related bookings.[458] SBC states that Nevada Bell adjusted its actual 1993 revenue requirement to remove a one-time expense associated with an early retirement offering.[459]

282. SBC supports the use of individual LEC data for setting percentages to apply for BFP forecasts as opposed to a pooling scheme.[460] SBC states that individual data would more closely reflect a LEC's actual costs, instead of average LEC costs, stating that a LEC may not want to reflect average industry growth, particularly if it worked to lower its costs by amounts greater than the industry averages. SBC also contends that historical trending is a reasonable approach, and would simplify SBC's forecasting process.

283. In its direct case, SBC indicates that all three companies -- SWBT, Pacific Bell, and Nevada Bell -- use some form of "bottoms-up" forecasting methodology to prepare their BFP revenue requirement forecasts.[461] To develop its tariff year 1997/98 BFP revenue requirement, SWBT obtained tariff period budget data for regulated operations and processed it through its Part 36 and 69 cost allocation process. SBC concedes that its resulting forecast is not consistent with the historical trend, and states that "the inconsistency is very likely due

---

458 SBC Direct Case at 20.

459 SBC Direct Case at Exhibit NV-BFP-4 (line 10).

460 SBC Direct Case at 21.

461 SBC Direct Case at 22-27.

to the same reasons as those related to the historical data. Mainly, SWBT will introduce new separations studies that will shift costs to the loop category . . . . Additionally, SWBT continues to be conservative in its estimates of costs for budgets."[462]

284. SBC states that it also developed Pacific Bell's BFP revenue requirement forecast using budget projections based on 1996 subject-to-separations data, adjusted for rule changes (*e.g.*, changes to the treatment of payphone line costs and to the allocation of OB&C expenses), corporate-imposed constraints, planning from business units, and anticipating extraordinary issues.[463] Similarly, SBC states that Nevada Bell's projections are based on total company budget data. Because the tariff-year BFP revenue requirement is a split-year figure, Nevada Bell averages the budget data from the two calendar years the tariff year covers, and adjusts for reserve balances held at the end of the first year (the midpoint).[464] While SBC concedes that Nevada Bell's forecasts have historically been low, it asserts that the tariff year 1997/98 forecast is consistent with its historical growth.[465]

285. With respect to line growth, SBC states that in nearly every instance the ARMIS data show that SWBT's projected line growth deviated significantly from the actual average line growth, the forecasts being nearly always too low. The forecasts, according to SWBT, were developed using field information. The information from the field was then modified based upon observed trends in historical data.[466] SWBT states that its consistent underestimating is "indicative of a period of accelerating trends, when historical data have yet to evidence the full measure of the acceleration."[467] Pacific Bell also showed significant deviations, and contends that these are primarily because of the "uncertainty surrounding the convergence in the past several years of market changes that are both secular and cyclical in nature."[468] Nevada Bell does not explain any deviation, but simply states that Exhibit NV-BFP-11 demonstrates the calculation of the percentage change from actual.

286. For Southwestern Bell, SBC filed a comparison of the linear and log linear

[462] SBC Direct Case at 24.

[463] SBC Direct Case at 25-26.

[464] SBC Direct Case at 27.

[465] SBC Direct Case at 27.

[466] SBC Direct Case at 31.

[467] SBC Direct Case at 31.

[468] SBC Direct Case at 32. Variations in demand over time that are the result of a long-term core trend are termed "secular." In contrast, "cyclical" variations occur as demand fluctuates with the business cycle or other general economic conditions.

projections to its forecasts,[469] but contends that the forecasts call for more "robust" growth than the trend models due to the accelerating growth profile evidenced in the actual growth rates presented in Exhibit 1SW.[470] SBC states that closer examination of Southwestern Bell's historical data does not allow it to find justification for judgmental forecasts. For example, SBC states that the growth in Southwestern Bell's total billable lines was 5.47 percent from the third quarter of 1995 to the third quarter of 1996, which indicates not only that the forecasted growth is within the 10 percent range, but also provides part of the basis for judging that total billable line growth will accelerate in the near term. SWBT's 1997/98 forecasts, contained in its tariff filing, also call for greater growth, again due to the accelerating growth profile.[471]

287. While SBC states that Pacific Bell's 1997/98 tariff year forecast overstates demand when using a six-year historical trend line as a basis for projection, it contends that the forecast is consistent with historical demand trended over four to five years.[472] According to SBC, discrepancies with the six-year trend line are caused by the inclusion of historical data that it believes is less relevant to, and less predictive of, current market and competitive conditions facing Pacific Bell than are more recent data.

288. SBC states that Nevada Bell's projections for tariff year 1997/98 vary from the Commission's required trend analysis, and that the trend analysis produces a growth rate that is too low.[473] SBC explains that Nevada Bell's estimates are based upon annual growth rates of 5.71% and 4.62% for 1997 and 1998, respectively, and that these estimates are based upon input from engineering, sales and field personnel, tempered with the results of the trend analysis. Accordingly, SBC contends that Nevada Bell's end-user demand forecast for tariff year 1997/98 for Total Billable Access Lines is more accurate than the trend analysis, because current growth in the area is included in the former.

289. SBC states that the difference between SWBT's forecasted and actual per-line BFP revenue requirement did not result in a proportional undervaluation of the EUCL rates because, in the past, the actual per-line BFP revenue requirement always exceeded the $3.50 single-line cap, and sometimes exceeded the $6.00 multi-line cap.[474] SBC also argues that the

---

[469] *See* Exh. 2SW.

[470] SBC Direct Case at 36.

[471] *See* SBC Direct Case at Exhibit 1SW.

[472] SBC Direct Case at 37.

[473] SBC Direct Case at 38.

[474] SBC Direct Case at 39.

differences in Pacific Bell's forecast versus actual per-line BFP revenue requirements closely parallel the differences noted in the discussion of its forecast versus actual BFP revenue requirements. SBC states that the difference in Pacific Bell's forecasted and actual per line BFP revenue requirement each year is less than ten percent. In contrast, SBC states that Nevada Bell's estimates were consistently below its actual per-line BFP revenue requirement, primarily because actual costs were consistently higher than budget.[475]

h. Southern New England Telephone

290. SNET contends that its projected BFP revenue requirements used in its 1997 Annual Access tariff filing is "fully consistent with the trend of SNET's actual BFP revenue requirements.[476] According to SNET, its direct case provides: (1) SNET's actual BFP revenue requirements for each calendar and tariff year between the 1991-1992 tariff and calendar years and the 1996-1997 tariff and calendar years;[477] (2) projected BFP revenue requirements filed in each year's TRP for the same period;[478] (3) a BFP revenue requirement comparison by tariff year;[479] (4) a summary of actual calendar year BFP adjusted for FCC rule changes;[480] and (5) documentation explaining the methodology that SNET used to compute its BFP revenue requirement projection for tariff year 1997-1998.[481]

291. SNET maintains that its forecast deviations between each annual BFP revenue requirement projection and SNET's actual annual BFP revenue requirement are not statistically significant.[482] SNET states that any deviations from actual levels are either insignificant, or are the result of: (1) specific year-by-year factors (such as marketing campaigns); or (2) the introduction of new end-user services, which has increased second lines.[483]

---

475 SBC Direct Case at 40.

476 SNET Direct Case at 2.

477 *See* SNET Workpapers BFP-1 and BFP-2.

478 *See* SNET Workpaper BFP-3.

479 *See* SNET Workpaper BFP-3.

480 *See* SNET Workpapers BFP-4 and BFP-6.

481 *See* SNET Workpaper BFP-7.

482 SNET challenges the definition of "significant" contained in the *1997 Designation Order*, stating that the ten percent threshold is inappropriate when applied to small and medium sized price cap LECs, whose base is much smaller than those of the BOCs.

483 SNET Direct Case at 3.

i. Sprint

292. In its Direct Case, Sprint contends that its 1997 annual access tariff filing forecasts differed from the adjusted BFP and EUCL revenue requirement data by less than one-half of one percent. Sprint contends that this evidences both the accuracy of Sprint's straight-line trending methodology, and supports Sprint's assertion that the forecasts submitted in its 1997 annual access tariff filing are just and reasonable.[484] Further, according to Sprint, the data submitted in its annual access filings prior to 1997, and recalculated in accordance with the *1997 Designation Order*, reveal minor differences between the BFP and EUCL forecasts filed prior to 1997 and the recalculated forecasts. Sprint contends that any forecasting variances are inconsequential, because the data demonstrate that most years' costs exceeded the $6.00 cap.[485] While Sprint agrees that, generally, BFP revenue requirements and EUCL demand forecasts are likely to be inconsistent with actual data, Sprint maintains that the BFP revenue requirement data in its 1997 annual access filing were accurate, and differed only minimally from the adjusted BFP revenue requirement data that Sprint calculated as ordered pursuant to the *1997 Designation Order*. Sprint suggests that the Commission consider using historical data for future annual access tariff filings.[486]

293. Sprint calculated its actual BFP revenue requirements using, where available, ARMIS data 43-01 for each calendar and tariff year (1991-1996), and projected BFP revenue requirements filed in its 1997 annual filing. It collected non-ARMIS companies' data in an ARMIS-like format.[487] In developing Sprint's calendar and test year BFP revenue requirements, it adjusted for the effects that changes in Commission rules had on actual BFP revenue requirements. Sprint contends that, based upon the general accuracy of its forecasting methodology, its methodology and results should be accepted, and it should not be required to provide detailed explanations of differences in its projected and actual revenue requirements.[488]

294. In the *1997 Designation Order*, according to Sprint, all price cap LECs were asked to justify inclusion of the highest and lowest percentage changes in BFP revenue requirements. In general, Sprint does not consider the differences in percentage changes shown in its Exhibit 1 to be "particularly large or outside of a consistent trend so as to be

[484] Sprint Direct Case at 1.

[485] Sprint Direct Case at 2.

[486] Sprint Direct Case at 2.

[487] Sprint Direct Case at 3.

[488] Sprint Direct Case at 3.

characterized as 'outliers' or otherwise unacceptable for trending purposes."[489] The Sprint operating companies used a straight-line trending methodology based on historical data which, according to Sprint, resulted in a deviation of only 0.4 percent between the recalculated forecast and the forecast included in the 1997 filing.

295. Sprint used the same methodology for calculating its revenue requirements during the 1991-1995 period as that used prior to Sprint's election of price cap regulation.[490] For its last two tariff filings, Sprint based the BFP revenue requirement on a historical trend of the previous years' data. According to Sprint, at an aggregate level, the 1997 tariff filing forecast is within one-half of one percent of both the straight-line forecast of historical calendar year actuals (-0.46 percent) and tariff year to tariff year straight-line forecast of 0.40 percent.[491] For tariff year 1997/98, Sprint adjusted its calculations to reflect the recent changes to the allocation of OB&C expenses,[492] but Sprint contends that no adjustment to its treatment of pay telephones was required because the line costs associated with pay telephones have "historically been included in Sprint's BFP revenue requirement."[493]

j. U S WEST

296. According to U S WEST, price cap LECs have nothing to gain from over- or under-estimating BFP forecasts. U S WEST argues that, on the contrary, it has a interest in ensuring that its BFP forecasts are as accurate as possible, because the forecasts affect some customers differently from others.[494] U S WEST warns, however, that "it is impossible to evaluate the accuracy of any given BFP forecast until after the end of the tariff year."[495] U S WEST contends that the Commission, which had not yet prescribed a methodology for forecasting BFP and access lines, should not do so at this time. U S WEST alleges that, contrary to the *1997 Designation Order*, the BFP revenue requirement and end-user demand are not variables that can be accurately forecast once historical data have been factored in to

---

[489] Sprint Direct Case at 4. Sprint Exhibits 1 and 2 document the data, assumptions, and methodology used to derive BFP revenue requirement projections contained in its access tariff revisions that became effective July 1, 1997.

[490] *See* Sprint Exhibit 7.

[491] Sprint Direct Case at 5.

[492] Southwestern Bell Telephone Company Application for Review of Memorandum Opinion and Order Concerning the Proper Treatment of Affiliate Transactions, Order on Review, 12 FCC Rcd 2697 (*OB&C Order*).

[493] Sprint Direct Case at 5.

[494] U S WEST Direct Case at 3.

[495] U S WEST Direct Case at 3.

remove the impacts of past rule changes and changes to other variables which affect the BFP. U S WEST contends that BFP, as a revenue requirement, is closely intertwined with its budgets and future rule changes. It does not use a historical time series to forecast the BFP, nor does U S WEST believe that it is appropriate to do so.[496]

2. Oppositions

a. AT&T

297. AT&T argues that, in performing its own year-over-year trend analysis of BFP revenue requirements using actual BFP revenue requirements as provided by the price cap LECs' ARMIS 43-01 reports for the 1991-96 calendar years, most price cap LECs significantly understated the BFP revenue requirements for tariff year 1997/98, and thus underestimated their EUCL rates.[497] If anything, contends AT&T, the LECs' direct cases validates AT&T's analysis and confirms that, as a group, the price cap LECs have improperly inflated their CCL charges to IXCs, by improperly understating their BFP revenue requirement forecasts. Furthermore, no matter which approach a LEC used, AT&T claims that the projections techniques were so deficient that none of the LECs was able to produce relatively accurate results.

298. AT&T advocates, instead, a forecasting technique that would require each LEC to develop forecasts based on using a trend line constructed using its actual, adjusted historical calendar year BFP revenue requirement. This forecast, each year, would be adjusted to account for the difference between the actual and projected BFP revenue requirement and end-user demand from the previous period.[498] AT&T states that this technique would automatically correct for forecasting inaccuracies in a "simple, straightforward, and verifiable" manner,[499] ensuring that forecasting errors will no longer become permanently embedded in common-line rates and will instead be removed as soon as possible.[500]

299. AT&T, therefore, requests that the Commission require the LECs, in calculating their tariff year 1997/98 EUCL and CCL rates, to remove the impact of their past forecasting errors. Noting that the LECs, in their direct cases, have already calculated the difference between actual and projected per-line EUCL rates, AT&T requests that they remove the

[496] U S WEST Direct Case at 4.

[497] AT&T Opposition at 9-10.

[498] AT&T Opposition at 13-14.

[499] AT&T Opposition at 13.

[500] AT&T Opposition at 14-15.

impact on current rates of their past over- or under-forecasting. AT&T explains that, "because CCL rates are not based on the prior period CCL rates, and are not recalculated each year as are EUCL rates, any LEC overstatement of CCL rates [is] carried forward to each successive tariff period, regardless of whether normal price cap changes are made."[501] AT&T has calculated this impact at $271 million.[502]

b. MCI

300. MCI contends that, with few exceptions, the price cap LECs' 1997-98 forecasts are inconsistent with historical trends. According to MCI, the aggregate BFP forecast by the price cap LECs is approximately $487 million less than a BFP forecast computed using the average growth rate for the six years of price cap regulation; $457 million less than a BFP forecast computed using the average growth rate for the most recent three years; and $632 million less than a BFP forecast developed from a regression analysis.[503]

301. MCI analyzes the BOCs' BFP revenue requirement and line count forecasts by computing a weighted average of each BOC's error for the past three years, adapting an analytical technique used by the Common Carrier Bureau in the *1990 Annual Access Order*.[504] Using this analysis, MCI contends that the weighted average error for the past three years exceeds 1.5 percent for every BOC. In addition, MCI concludes that several of the BOCs, including Ameritech, NYNEX, Nevada Bell, Southwestern Bell, and U S WEST have three-year weighted average forecasting errors exceeding 5 percent.[505] Given these errors, MCI argues that the Commission should require the revision of any price cap LEC BFP estimates that depart from the historical trend. According to MCI, none of the price cap LECs that forecasted a below trend 1997/98 BFP revenue requirement has presented an explanation sufficient to overcome a presumption that its below-trend forecast is inaccurate.

302. MCI also argues that GTE's forecast is approximately $120 million below trend because it assumes an unprecedented 5.3 percent decline in its BFP revenue requirement recorded in 1996 will be repeated.[506] According to MCI, GTE's forecast is unreasonable,

---

[501] AT&T Opposition at 15-16 n.24.

[502] AT&T Opposition at 15.

[503] MCI Opposition at 2-3.

[504] MCI Opposition at 4 (*citing* Annual 1990 Access Tariff Filings, Memorandum Opinion and Order, 5 FCC Rcd 4177, 4199-4200 (Com. Car. Bur. 1990)).

[505] MCI Opposition at 4 and Attachment B.

[506] MCI Opposition at 6.

because no such LEC ever recorded such a decline for two consecutive years. Moreover, MCI argues that, on an individual study area basis, GTE's methodology leads to BFP revenue requirement forecasts that MCI considers even more implausible, including a decrease of approximately ten percent in California.

3. Rebuttals

303. Ameritech states in its rebuttal that neither AT&T nor MCI provides sufficiently detailed information regarding the development of their proposed methodologies. Because forecasts are mere estimates of future results, Ameritech concludes that there is no reason to believe that either MCI's or AT&T's method would be more accurate than the methods employed by the various LECs. Adapting the "ten percent" threshold described in the *1997 Designation Order*, Ameritech states that, for every BOC, MCI's tariff year 1997/98 forecast differs from AT&T's by more than ten percent of AT&T's forecasted growth.[507] This fact, Ameritech argues, highlights the unreliable nature of historical trend analysis. Ameritech also challenges AT&T's allegation that all forecasts prior to the current 1997-98 forecast have been inaccurate, and therefore the LECs should adjust their current CCL and EUCL rates to remove the impact of past forecasting inaccuracies on a going-forward basis. Ameritech argues that: (1) AT&T is incorrect that past forecasting deviations are embedded in current rates; (2) such an adjustment is not contemplated by the Commission's rules; (3) any attempt to obtain adjustments for any alleged past forecast discrepancy is untimely; (4) Ameritech's forecasts show no pattern of consistent underestimating of per-line BFP revenue requirement; and (5) AT&T's proposed adjustment could cause disruption for the LEC's end user customers by raising EUCL charges.[508] Ameritech also contends that many of these issues could be avoided if forecasting were eliminated altogether in the calculation of the BFP revenue requirement.

304. In its rebuttal, Bell Atlantic contends that its EUCL charges for tariff year 1997/98, which were based upon forecasts of line growth demand during the course of the year and on forecasts of the level of BFP costs, are reasonable. AT&T's proposed multi-year average of historical costs, according to Bell Atlantic, puts too much weight on earlier years and fails to capture the recent reductions in the growth of BFP costs. Bell Atlantic argues that when AT&T's analysis is used to predict the BFP costs for the most recently completed tariff year, the variance from actual costs is almost five times the size of the variance resulting from Bell Atlantic's methodology. Bell Atlantic also states that MCI's three different proposed historical trend methodologies are also less accurate. According to Bell Atlantic, two of MCI's methodologies suffer from the same flaw as AT&T's, while the third overstates

[507] Ameritech Rebuttal at 1-2.

[508] Ameritech Rebuttal at 3-4.

recent costs.[509]

305. Bell Atlantic also contends that it should not be required to make a current tariff adjustment to correct any past forecasting errors as proposed by AT&T. First, argues Bell Atlantic, contrary to AT&T's claim, past forecasts have had no impact on current rates. BFP is at issue in this proceeding, states Bell Atlantic, to divide the costs to be recovered in a given year between carrier and end-user charges. In contrast, the total amount of cost that can be recovered through rates in that year is determined by the price cap index for the common line basket. However, once a new tariff year begins, states Bell Atlantic, the common line basket price index is adjusted by the price cap formula -- an adjustment that is not dependent upon BFP calculations. Thus, argues Bell Atlantic, even if there were errors in prior years they would not have any impact on current rates.[510]

306. BellSouth contends in its Rebuttal that neither AT&T nor MCI challenged BellSouth's line demand quantities, and thus there is no basis to require BellSouth to make any revisions to its 1997-98 line demand forecast. AT&T and MCI both challenge BellSouth's BFP revenue requirement projection, on the basis that the projection is inconsistent with a historical trend analysis.[511] BellSouth contends that neither party attempts to refute BellSouth's explanation for its 1997-98 BFP projection, and in fact AT&T wholly ignores BellSouth's discussion of the process it used to develop the projection. Regarding AT&T's proposal for the use of an error correction true-up methodology, BellSouth contends that a change to such a methodology could only be implemented by the Commission through a rulemaking proceeding, and that the Commission should defer consideration of same until that time.[512]

307. In rebuttal, Frontier contends that AT&T's and MCI's primary concern in their oppositions, specifically that certain price cap exchange carriers underestimate their BFP revenue requirements, thereby overstating CCL charges, is not applicable to Frontier. Neither party challenged the validity of Frontier's forecasts, and as such, Frontier contends that there is no basis to require it to recalculate its CCL charges on the basis of forecasting errors.[513]

308. In its rebuttal filing, Sprint reiterates that its 1997 annual access tariff filing forecasts differed from the adjusted BFP and EUCL revenue requirement data, which it

[509] Bell Atlantic Rebuttal at 3.

[510] Bell Atlantic Rebuttal at 4.

[511] BellSouth Rebuttal at 2.

[512] BellSouth Rebuttal at 5.

[513] Frontier Rebuttal at 1.